

June 11, 2001

ILLINOIS COMMERCE COMMISSION

STAFF REPORT

Subject: WONDER LAKE WATER COMPANY

CAPSULE SUMMARY

The purpose of this report is to advise the Manager of the Water Department (WD) of Staff's findings during a follow-up inspection on the Order, entered June 16, 1999, in Docket No. 97-0609, concerning Wonder Lake Water Company(WLWC or Company).

After inspecting WLWC's water facilities, discussing compliance with the Order with Company personnel, and considering alternatives of ensuring that the Company will comply with the Order, Staff recommends that the Commission reopen the docket proceeding. It can then determine why WLWC has not complied with the findings in the Order and investigate WLWC's filing for bankruptcy. Further, Staff recommends that WLWC be placed in receivership under Section 4-501 of the Public Utilities Act (Act).

PROCEDURAL HISTORY

On January 10, 1997, Mr. Thomas P. Mathews, owner and operator of HSWC filed for an increase in revenues under the Commission's simplified rate case procedures. In response to NIUI's notification to the customers about the rate increase, the Consumer Services Division (CSD) received replies from the customers opposing the rate increase. As a result of those replies filed by the customers, a public meeting was held on March 18, 1997.

The purpose of the public meeting was to allow customers the opportunity to voice any concerns about issues regarding the Company. Mr. Mathews, Mr. Jeff Klaus (Vice President) and, Mr. Clyde Kurlander (legal counsel) represented WLWC at the public meeting. Representatives from the Illinois Environmental Protection Agency (IEPA) were present and also answered questions. Approximately 75 customers served by NIUI attended the meeting. At that time, the customers voiced anger and frustration about the

quality of water, Company management, service, and the lack of concern and action by the Commission and IEPA.

As a result of the public meeting, the Commission initiated a Citation proceeding which terminated the simplified rate case procedure and commenced an investigation into its rates and non-compliance to Commission's rules and regulations.

Based on evidence from the proceeding in Docket No. 97-0609, the Commission entered an order requiring WLWC to take corrective actions in their operations and bookkeeping to enable them to improve service to their customers. The following summary set forth the actions to be taken and the deadline to be completed. (Note that all deadlines extend from the date of the Order.)

	Requirement	Deadline	Completion
1.	Establish a meter testing program on meters that are 10 yrs. or older;	120 days	Not Completed
2.	Participate in State-Wide One Call Notice (JULIE);	1 year	Completed
3.	Installation of meters to all customers;	1 year	Not Completed
4.	Quarterly reports indicating location of installed meters and remotes and documenting quantity of customer refunds;	Quarterly	Not Completed
5.	Replace or repair 4 hydrants and correct the discrepancies on Schedule 3.03 (a) and (b);	1 year	Not completed
6.	Dead-end mains to be looped (Thompson Road);	1 year	Not completed
7.	Install additional storage tank having capacity at least 55,000 gallons;	5 years	Not completed
8 .	Establish 8" future main program;	--	No mains installed
9.	Moisture proof electrical receptacles; and	30 days	Completed
10.	Establish and maintain continuing property ledger.	6 months	Not completed

COMPANY DESCRIPTION

WLWC is currently providing water service to approximately 410 residential customers in a portion of the Village of Wonder Lake, which is contiguous to Highland Shores Subdivision in McHenry County, Illinois. WLWC is one of five utilities in McHenry County owned by T. P. Mathews. The other affiliated utilities are:

Highland Shores Water Company;
Crystal Clear Water Company;
McHenry Shores Water Company; and
Northern Illinois Utilities, Inc.

WLWC received its initial Certificate of Public Convenience and Necessity on December 4, 1956, in Docket No. 43707.

The water distribution system for WLWC consists of one well, two hydropneumatic storage tanks for a combined capacity of 20,000 gallons, approximately 30,600 feet of four (4) and six (6) inch diameter mains, approximately 412 services, unknown number of meters, and fifteen (15) hydrants.

WATER QUALITY

At the March 20, 1997, public meeting the customers complained about water quality. Their concerns were the look, smell, and low pressure of the water reaching their homes. Specifically, customers complained about noticeable variances in chlorine smell, rusty water and how the poor quality of water was affecting the useful life of their water heaters and water softeners. As explained to the customers, the rusty water problem is due to the iron content of the water. IEPA reported NIUI's well supply has an iron content of approximately 0.43 mg/l. This is below the IEPA's standard of 1.0 mg/l, an iron level of this amount may be sufficient to cause aesthetic problems and stained clothing.

During Staff's inspection of the water facilities and flushing of the hydrants on May 2 and 3, 2001, with the exception of the water within the hydrant branch, the water appeared to become clear shortly after opening the hydrants.

BILLING AND RATES

During Staff's inspection of the billing records in the Citation proceeding, Staff testified that approximately 70 customers had bills that were estimated two or more consecutive times. Estimating bills consecutively is a violation of 83 Ill. Code 280.80, "Estimated Bills", which requires that an actual meter read be performed at least every second billing period unless a variance is granted.

The Company reported that they had been reading the meters, however, at the time of this inspection, the Company had not read meters for three consecutive periods.

Further, Staff found that there were several customers were required to pay a flat charge for water service, since they had no meters installed and that several customers paid a \$15.00 Non-Sufficient Fund fee. Staff indicated that the Commission had not approved these charges nor did the Company have any charges filed in their tariffs. In the order, the Commission required WLWC to submit quarterly progress reports indicating the locations where meters and remotes were installed and quarterly reports documenting customers to whom refunds were made with interest and the amount of refunds. WLWC made one report to Staff on September 19, 1999. However, the report did not contain information about refunds or meter installation, as directed by the Order.

Approximately a year later, Staff requested the information be made available. At that time, Mr. Mathews indicated that the Company was unable to provide that information due to a Y2K problem with their computer. When Staff requested the information again, during this inspection, the Company indicated that they would have to contact the software manufacture to see if they could provide assistance in getting the information we needed to review customer's accounts. This information has not been provided.

VALVE AND HYDRANT

83 Ill. Adm. Code 600.240 requires each utility to establish a valve and hydrant inspection program. Valves and hydrants must be kept in good operating condition and should be inspected at least annually. Valves and hydrants found to be inoperable are required to be repaired or replaced. Valve covers must be maintained at grade level and not paved over. Each inspection and all maintenance must be properly noted on the valve and hydrant record card.

Based on Staff's investigation, it appears that WLWC has instituted a valve exercise program. However, it appears that WLWC has not made the necessary repairs and/or replacement of the hydrants as required by the Order in 97-0609.

METERS

Based on Staff's discussion with Company personnel, Staff believes that NIUI has not started a regular meter testing program or a replacement program as required by 83 Ill. Adm. Code 600.300. Company personnel indicated that the meters are changed out as needed.

BANKRUPTCY

The Order entered in Docket No. 97-0609, on June 16, 1999, not only required the utility to upgrade its water facilities, but granted WLWC an increase in revenues of \$4,874, which represented a revenue change of 7.92%. On or about late October or early November, 1999, WLWC filed for bankruptcy.

Section 4-501 of the Act states:

- (a) If a public utility or telecommunications carrier that has fewer than 7,500 customers:
 - (1) is unable or unwilling to provide safe, adequate, or reliable service;
 - (2) no longer possesses sufficient technical, financial, or managerial resources and abilities to provide safe, adequate, or reliable service;
 - (3) has been actually or effectively abandoned by its owners or operators;
 - (4) has defaulted on a bond, note, or loan issued or guaranteed by a department, office, commission, board, authority, or other unit of State government;
 - (5) has failed to comply, within a reasonable period of time, with an order of the Commission concerning the safety, adequacy, efficiency, or reasonableness of service; or
 - (6) has allowed property owned or controlled by it to be used in violation of a final order of the Commission the Commission may file a petition for receivership and a verifying affidavit executed by the executive director of the Commission or a person designated by the executive director asking the circuit court for an order attaching the assets of the public utility or telecommunications carrier and placing the public utility or telecommunications carrier under the control and responsibility of a receiver;

Based on provisions 2 and 5 of Sec. 4-501, it appears that WLWC has demonstrated that they are unable to borrow the necessary funds needed to finance the operations of the Company. They have not completed the necessary requirements of the Order in Docket No. 97-0609, to provide safe, adequate and reasonable service. Therefore, Staff believes that WLWC should be placed in receivership under Sec. 4-501.

RECOMMENDATION

On May 17, 2001, WLWC filed for an increase in revenues under the Simplified Rate Procedure. Staff expects that there will be considerable public outcry and resentment to any rate increase, especially since WLWC has not met the obligations of the Order in 97-0609. Because of the problems with the operations, as set forth above, Staff recommends that the proceeding in Docket 97-0609 be reopened to investigate why WLWC has not complied with the Order in the above docket and to investigate the filing of bankruptcy. Further, it appears that WLWC is unable to provide the necessary financing to ensure safe, adequate and reasonable service. Staff further recommends that WLWC be placed into receivership.

Prepared by

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Approved by

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